

## Benefits and downsides of unrestricted funding to non-profit organisations

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The authors have studied how unrestricted funding affects a number of capacities of non-profit organisations. This provides a starting point to better understand how unrestricted funding supports the development of non-profit organisations and guidelines for grant makers and philanthropists in their strategic planning.

The key question in this article is what positive and negative effects unrestricted funding has on non-profit organisations.

In the proposed conceptual model, unrestricted funding has a positive effect on seven non-profit capacities. However, some potential negative effects are also described and the risk of becoming dependent on one large funder is highlighted. Depending on the type of non-profit, these effects may differ.

[#UnrestrictedFunding](#) [#PhilanthropicStrategy](#) [#Grantmaking](#) [#NonProfitCapacity](#)

### Background

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### Context



- There is a growing trend amongst funders to give unrestricted funding, although restricted project based funding is still the norm from both public and private funders. In the context of philanthropy, unrestricted funding refers to grants or donations that nonprofits receive and can spend in any way they believe is appropriate to further their mission.
- In the academic literature there is no theoretical basis to describe and understand the consequences of unrestricted funding to non-profits. Therefore, the authors of this article developed a conceptual model to illustrate the effects of unrestricted funding for the work of non-profit organisations (see figure).
- The authors have performed a literature review on non-profits and have complemented this with in-depth interviews with 20 grantees of two large insitutional funders in the Netherlands, the Dutch Postcode Lottery and the FriendsLottery.
- The main question that is explored in this article is how unrestricted funding relates to capacities of grantee organisations.

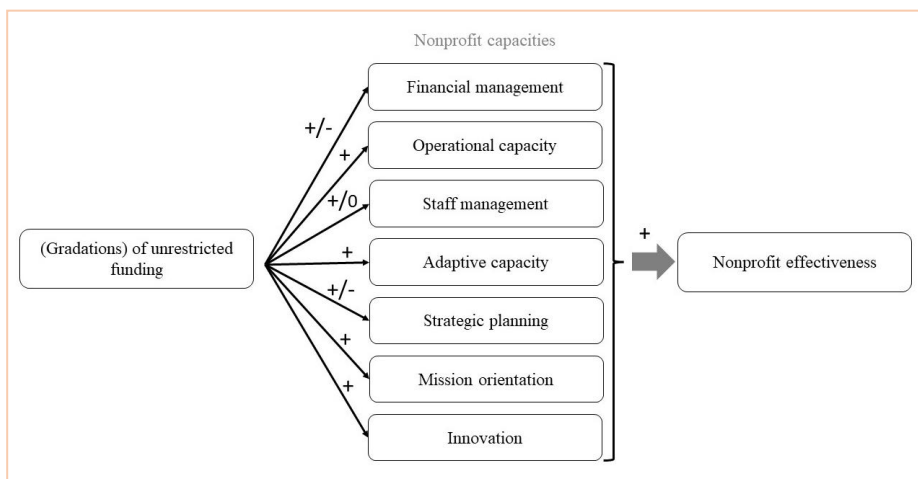
# ERNOP Research Note

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## Take aways & Learnings



- **The conceptual model** proposes effects on the following capacities of non-profit organisations (see the Figure below):
  - I. **Financial Management.** Unrestricted funding can be important to keep financial stability in the organisation, acting as a buffer or reserve, or to cover overheads. There is however, a risk in becoming dependent on one source of funding and diversity in funding sources is encouraged.
  - II. **Operational Capacity.** The ability to use funding for operational costs provides the opportunity to create a stable organisation with strong back office support, allowing the organisation to grow and focus on its mission.
  - III. **Staff Management.** Long-term unrestricted funding can allow recruitment and retainment of staff. However, those interviewed said that this was not a decisive factor for further training and education.
  - IV. **Adaptive Capacity.** Unrestricted funding allows organisations to adapt and quickly respond to changes in their environment, such as disasters, emergencies or pandemics.
  - V. **Strategic planning.** Multi-year unrestricted funding allows grantees to follow a long-term strategic plan and allows organisations to direct funding to areas which other large funders do not cover. A possible downside is that organisations may become less critical of their own work, when not required to report impact.
  - VI. **Mission Orientation.** In order to keep an independent position and avoid mission drift, unrestricted funding is key.
  - VII. **Innovation.** A benefit of unrestricted funding is that it can be invested in development and validation work, where outcomes are uncertain. This can be described as philanthropic venture capital.



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